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Luxury marketing strategies related to ethical sourcing

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Bios

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Luxury marketing strategies related to ethical sourcing

The value chains in the textile industry face numerous social and environmental challenges. As a culturally bound traditional material for home textiles cotton is preferred thanks to its desired functional and luxurious properties. Given consumer expectations of properties and availability of products, a key challenge is to make efficient use of the resources. One way to minimize the undesired environmental and social effects is to carefully select production methods in an ethical sourcing process as a part of the procurement for a retailer. A comparative case study of a Swedish and a Finnish home textile retailers reveal that the Better Cotton Initiative as well as Fair trade and Cradle to Cradle serve as support for home textile producers to ensure ethical aspects in the value network. The retailer's role, in creating added values for the consumer, is that of educating the consumer in search of branded products with luxurious properties grounded in ethical sourcing processes.

Key words

Added value, better cotton initiative (BCI), consumption, corporate social responsibility, cradle to cradle, Fair trade, fast moving consumer goods, marketing, triple bottom line

Introduction

Ethical challenges related to consumption of fast moving consumer goods (food and fibre products) have received a lot of attention in the last decades (Gardetti & Torres, 2013). Complex value chains in most fibre value chains complicate decision making. In addition, a number of management challenges are related to lacking awareness of all aspects of production, sales and use of the product. In the case of textile production for garments as well as for home textile the predominant material used is cotton. The production of cotton is associated with a number of challenges in the value chain (Figure 1). These challenges can be split in accordance with ‘the triple bottom line’ (Elkington, 1998) in social, environmental and economic threats to sustainable development.

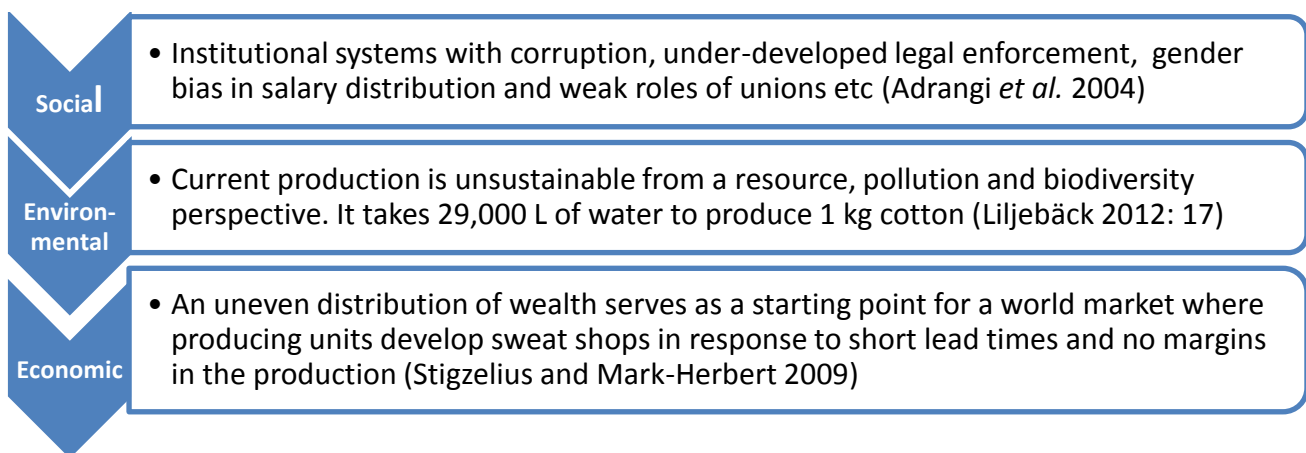


Figure 1. Selection of challenges related to textiles production in a triple bottom line framework.

The term luxurious raises the question of when a product is seen as something extravagant. The economical view, related to needs, distinguishes between needs and wants and considers anything beyond a need to be a luxury (Mortelmans, 2005; Sandell *et al.*, 2005, 93-110). A more marketing-oriented explanation of luxury is tied to the functions of the product in social and cultural contexts related to the consumer's needs and wants (Wiedmann *et al.*, 2007). It offers understanding of the importance of a brand (Black, 2008). Much of the branding efforts in marketing talks in favour of a definition of luxury as something rare, extravagant and expensive. Branding also implies a risk in cases like these ones of creating a fallacy of clean luxury (Davies *et al.*, 2012). Given the extent of ethical challenges that cotton production implies, most of the production would qualify as luxury, at least the home textile products above and beyond the set in current use in an average home. Our study concerns the corporate perspective of the value chain in the production, keeping consumer needs in mind and how the corporation can enhance their brand by communicating the added value of ethically sourced cotton.

The aim of this book chapter is to describe two ethical sourcing initiatives in the home textile retail corporations in Sweden and Finland. We are assuming that responsible sourcing in the cotton value chain will limit threats to sustainable development as well as create opportunities in terms of marketing strategies. The overall objective is to increase the understanding of how ethical sourcing is used for strategic branding purposes as well as for market development purposes. Key research questions are related to how corporate responsibility (CR) is perceived within the corporation, which stakeholder groups that are prioritized and the use of procurement tools. A mixed method approach (Robson, 2011) allows for a

combination of data collection methods, in this project a literature review of academic journals, personal interviews with CR officers and an analysis of digital information of what the selected case companies say about these products on their webpages and in their responsibility reports.

This book chapter is based on a research project where five home textile retailers were studied (Holmsten-Carrizo, 2013). Of these five cases, two are particularly interesting with regards to luxury consumption, Ikea and Finlayson. The selection of the case studies is based on the following criteria: a main market in the Nordic countries to ensure similar cultural contexts and communicational efforts from the corporation as an indicator of transparency in their corporate responsibility efforts. The secondary empirical material relies heavily on what each of these corporations communicate on web sites and in various reports. The primary empirical data, mainly interviews, serves as sources for understanding motives and attitudes towards ethical sourcing. Throughout the research process efforts were made to ensure validation in several steps (during the interview and sending transcripts after the interview) as well as in triangulation of data (Eisenhardt, 1989). The project addresses responsible sourcing aspects in the cotton value chains for home textile products (such as towels, beddings and curtains). These products account for roughly one third of the cotton produced in the US, the third largest cotton producer in the world (www, Cotton, 2013). Despite a large part of the cotton resource use, home textile production receives limited attention, while garment production remains in the focus in the political, media and academic spotlights.

The results of the study show that there are similarities in the case companies' strategies and approach to CR, both using a life-cycle assessment tool. The results also show some differences in communicational efforts of ethical sourcing efforts. In this chapter we will present the differences in the companies' sustainable business development strategies in terms of marketing added value of luxury products, starting with presenting a conceptual framework, then the empirical results and lastly the conclusions.

Corporate responsibility and marketing added value - a conceptual framework

Corporate Responsibility (CR) builds on the idea of responsible conduct – where corporate management takes a 'triple bottom line' (Elkington, 1998) in account for a wide set of stakeholders. In the case of a private organization, it is not merely defined by its profitability but by its sense of commitment and responsibility toward its internal and external stakeholders. The concept is closely tied to external pressures as "CR is about adapting to the ever-changing social reality and about making oneself fit to take societal demands seriously" (Pompe and Korthals, 2010, 370). Businesses, regardless of industry and size, are active members of society, which is reflected by context bound visions, social realities and operations in accordance with regulations and other societal expectations.

Porter and Kramer (2006) suggest that CR is about creating shared value for society in order to legitimize businesses and create 'a new way to achieve economic success' (*Ibid.*, 64). Shared value refers to business conduct where business and society are interconnected. A shared value lens can be applied to every business decision as it is seen as an integrated way to create policies and operating practices, which enhance the competitive edge of a corporation and at the same time affecting social, environmental and economic conditions for the communities they operate in. The additional value is created by offering sustainable products and services and communicating them in ways that empower and educate consumers, which in turn strengthens the brand and the corporation's reputation (Ottman, 2011; Porter and Kramer, 2006).

A notion of shared value in a global business environment points to the necessity of rethinking models for stakeholders as well as strategic thinking, questioning towards whom the retailers are responsible and accountable on a global market. Rainey (2006) refers to CR work as Sustainable Business Develop-

ment. He defines stakeholder as “any individual or group that is directly or indirectly affected by the products, programs, processes, and/or systems, but does not directly benefit as an economic participant such as a customer or supplier” (Rainey, 2006, 711). He emphasizes a value network perspective that recognizes a context bound and a wide set of stakeholders in his enterprise management model (Figure 2), as a base for sustainable business development.

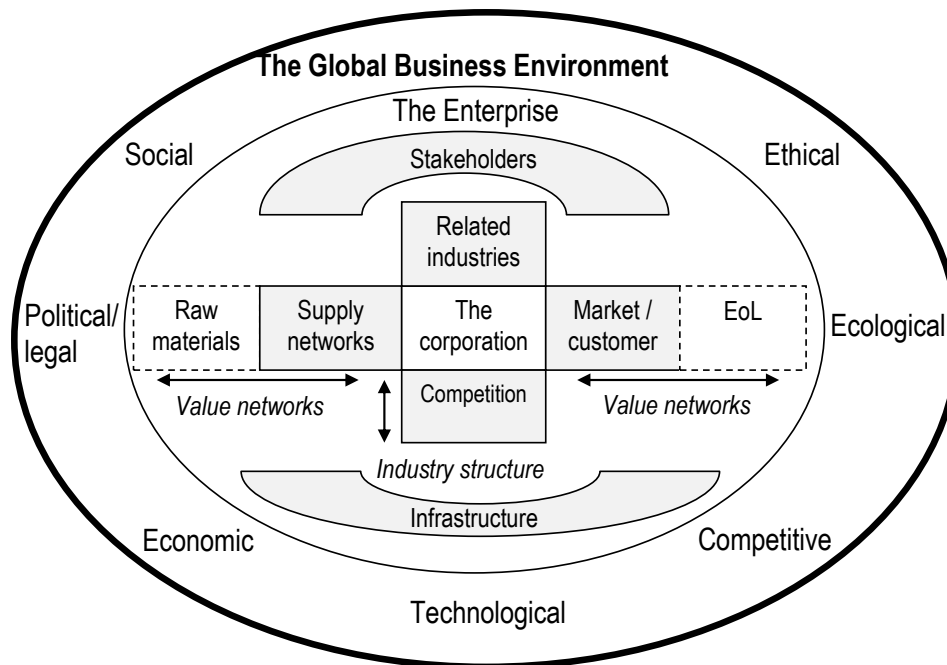


Figure 2. An enterprise management model (Rainey, 2006, 89).

Rainey (2006, 90) argues that the value chain perspective in ethical sourcing is an important part of sustainable business development. It is an extension of Michael Porters value system in that it reaches beyond first tier suppliers and it covers the life cycle of a product (from raw material to EoL). Identifying institutional conditions, stakeholder groups and individuals that are connected to a firm’s environment with the intention to “broaden management's vision of its roles and responsibilities beyond the profit maximization function...” (Mitchell *et al.*, 1997, 855) is key in the value chain perspective. It includes stakeholders in value networks upstream as well as downstream (Figure 2). Textile retailers are central in the value chain as a link between farmers, processors and consumers, which enables them to benefit from a powerful position in various decisions.

Decisions made by the integrated producer and retailer network may affect a large number of stakeholders. These decisions may concern conditions in the procurement process that are stipulated by an internal code of conduct or a standard (Larsson & Häversjö, 2001). As a labour intense industry, a number of these standards concern the local working conditions, reinforcing a weak legal enforcement (Stigzelius & Mark-Herbert, 2008). The retailer’s role in consumer education refers to efforts in marketing communication (Söderlund & Berg, 2012, 74), which translates well to this research project, for consumer in search of branded products with luxurious properties grounded in ethical sourcing processes.

Ethical sourcing initiatives in the home textile retail corporations

In the research project, both the case corporation (Ikea and Finlayson) have dealt with ethical sourcing with support from multi stakeholder initiatives (membership in networks) and through standards (audits by certification agents). Some facts about each case corporation are offered in Table 1, followed by a presentation of the ethical sourcing initiatives in each of these cases.

Table 1. Ethical sourcing initiatives in two home textile corporations (Holmsten-Carrizo, 2012)

Corporation/ Key feature	IKEA	FINLAYSON
Internal view of value of ethical sourcing	Value in itself to lessen environmental impact (Ståhl, 2013).	Differentiate from competitors and deliver added value to consumers (Suurla, 2013).
Internal CSR strategy	<p>People planet positive strategy</p> <p>Three main change drivers; 1) inspiring and helping the customers to live more sustainable at home, 2) strive for resource and energy independence and 3) lead in creating a better life for people and communities impacted by their business (Ikea, 2012c, 8).</p>	One of Finlayson's values is to act responsibly (Suurla, 2013). On the webpage they communicate their respect for nature as well as their connection to Finland and how they want to contribute to the well-being of the society (Finlayson, 2013).
Goal	100% BCI cotton by 2015 (Ståhl, 2013; Ikea, 2012c, 9).	When it comes to cotton, they have decided at the moment to focus on more responsible cotton for their towel collections. Possibly in the future they will move on to other products as well once they see how these are received by the customers (Suurla, 2013).
Stakeholder engagement in value chain	Better Cotton Initiative -BCI is a multi-stakeholder initiative that works to improve the social and environmental impact in the conventional chain. BCI follows cotton production to the ginning stage in the supply chain (Better Cotton, 2013).	<p>Cradle to Cradle criteria includes material health, material reutilization, renewable energy, carbon management, water stewardship and social fairness. Products that adhere to the strong criteria are awarded an eco-label. Companies working with this label get access to other practitioners and best practice information (Cradle to Cradle, 2011).</p> <p>Fair trade is a label focusing on producers in the beginning of value chain. When products are certified according to the Fair trade standard, it is the cotton, not the finished garment that has been ethically traded. In this case it means that the farmer has gotten a fair price for the cotton (Fair trade, 2011).</p>
Communicating the ethical sourcing efforts	The Ikea department stores, info on the products Fair trade organization webpage and on their own products (Ståhl, 2013).	Fair trade organization webpage and on their own products (Suurla, 2013).
Innovation for sustainability	Weaving technique. Ikea DVALA series is made with a weaving technique using 15% less cotton, which means they use less material during production. Also looking at alternative materials like wood and hemp (Ståhl, 2013).	Soya towels. Finlayson has towels that contain both Soya and Cotton. The soya used is a by-product during food production. These towels "have a more silky and luxury feel" (Suurla, 2013).
Luxury approach	Sustainability is not only for luxury products – it applies to every-day products, like home textile as well (Ståhl, 2013).	More responsible consumers are willing to pay a higher price for a product with added value and luxurious properties (Suurla, 2013).

The vision of the global corporation Ikea is to improve the ‘everyday life of the many people’ (Ikea, 2012a). Ståhl (2013) comments; “*given that we are big and want to continue working towards our vision, it is self-explanatory that what we put on the market has to make as little impact as possible, still keep a low price but good quality*”. This is quite the opposite of Finlayson, Suurla (2013) expressing that “*we believe that consumers are educated and more willing to pay a higher price for a product that has an additional [ethical] value, not from being a certain colour but from offering something more and keeping what it promises*”. However, even if Finlayson is focusing more on adding the shared value aspect in the eyes of a narrower consumer segment, they are only focusing on one product category, towels, so far. By focusing only on towels they have been able to extend the more responsible towel collections, instead of trying to work on all product categories with a risk of less to show as a result. At the moment they have three responsible collections with different focus that can appeal to consumer segments with varying expectations on sustainable development in the production and interior styles. One towel collection with a lot of colour carries the Fair Trade label. Another towel collection is the one made out of a mix of soya and cotton; these towels have other physical properties, a silkier feel to them, and they carry a soya label. The third towel collection carries the Cradle to Cradle label and are 100% recyclable, and the colour range is more natural (Suurla, 2013; Finlayson, 2013).

Compared to Finlayson’s approach, the Ikea sustainability strategy seems much bolder, or clearer, in setting a goal of 100% better cotton by 2015. Ikea is a founding member of BCI (Better Cotton Initiative) that works with the conventional cotton chain. Ståhl (2013) explains “*when it comes to cotton one can choose either ecologically grown cotton or conventionally grown cotton. We tried to take a middle way as there are not such volumes of ecologically grown cotton as we and also others would need.*” The criteria are aimed at improving the farming practices in use of water, pesticides and the financial and social situation for farmers. Even though the criteria are not very strict, Ikea has improved the life of a significant number of farmers (100,000 farmers in seven years) (Ståhl, 2013; Ikea, 2012b, 33). “*So this spread because, what happened [for the farmers] except for using less chemicals and water and buying fewer chemicals ...[...]...was that the sales grew. So it was a positive combination of different parts and then this sort of knowledge spread faster: because there was such a great economic advantage. That was a win both for environment, cotton [farmers] and Ikea, as we get a better raw material.*”

Finlayson on the other hand works with Cradle to Cradle which rests on five criteria tied to aspects of sustainable development (Table 1), Finlayson also offer Fair trade towels, which they hope appeal to a different consumer segment as this range of towels carry a variety of colours that cannot be produced within the range of the environmental criteria for Cradle to Cradle. Suurla (2013) elaborates “*we have a possibility to offer something different than the competitors with the innovation techniques [Cradle to Cradle and Soya towels], other companies also have Fair trade but at present our Fair trade towel range is colourful. With the different ranges we brought in slightly different styles to decorate for different sorts of people.[...]..Fair trade is colourful while the soya towels are low-key and luxurious; they are a bit silky to the touch. Cradle to Cradle colours are tied to what is possible due to the criteria; they are therefore beige, dark grey, green, quite natural earthy colours and dark blue*”

Differences are also noted in the companies’ innovation strategies. Ikea has focused on innovation that will make the production more efficient which offers possibilities to lower price given a cost based price strategy. “*...by having a new weaving technique we use 15% less material, that is even better, then we can make more out of less*” (Ståhl, 2013). Finlayson, on the other hand, has focused their research and development efforts towards desired product qualities that give the product a desirable luxury feel to it with a price strategy that presupposes the consumers’ understanding of added values.

The common denominator of the corporate strategies is that communicative efforts concerning sustainability are limited to information on some products in the stores (Suurla, 2013; Ståhl, 2013). Finlayson also market their Fair trade towels on the Finnish Fair trade webpage (Suurla, 2013). However, none of

these strategies are focused on educating the consumer about the global business environment on a larger scale. These findings indicate that there is still room for improvement in both case studies when it comes to communicating the product life cycle responsibility efforts to consumers. So far the companies have not invested extensively in educating consumers about the shared values of ethically sourced products.

Ethical sourcing, differentiation and branding – of luxury products

Exploring CR through the lens of home textile retailers illustrates how ethical sourcing may serve as ground for differentiation both on a product and at a corporate level. Products, product lines, and entire corporations that are engaged in an ethical sourcing initiative create capacity to communicate added values. However, in order for the consumer to perceive the added value, it has to be communicated, for example through a certification (an eco-label) or through other consumer educational efforts. So far the home textile products and corporations have not made significant efforts to create a more ethical oriented identity, a brand, compared to the garment textile industry, where a brand makes all the difference in the world for the consumer (Black, 2008). From a strategic marketing point of view there is a lot of potential in developing the branding capacity (Ottman, 2011; Söderlund & Berg, 2012) in creating products with added values in the product life cycle thereby using ethical sourcing to create a luxurious identity.

The increased understanding of value chain and networks values serves as grounds for strategic differentiation (Ottman, 2011; Rainey, 2006) but it assumes that consumers attribute value to ethical aspects of production to the over-all value of the product. Grounds for the added value, the luxuriousness in product properties, are created in the value network (*Ibid.*) but how do these efforts affect the consumer perception of luxuriousness of a product? The presented cases offer insight to how ethical sourcing is communicated but not how consumers perceive these values. Ethical sourcing may support the value of a branded product, assuming consumers are aware of the network values created in the value chain. The strategic value in ethical sourcing initiatives is hard to assess. It is not clear how consumers may translate ethical sourcing along with long-lasting quality to sustainability values (Davies *et al.* 2012; Wiedmann *et al.*, 2007).

In the case of Ikea, branding is based on reasoning around making the everyday products luxurious because of their ethical added value property, which is supported in Davies *et al.* (2012) reporting of positive consumer propensity to consider ethics in commoditized products. This raises the issue of the role of the retailer as not only an ethical sourcing agent but also as an educational resource. Ironically, in traditional luxury products ethics seems to be an added bonus that does not affect the purchasing decision while in everyday products ethics is the luxury that makes the difference during the purchase decision (*Ibid.*). Finlayson has solved this by adding different options in their towel collection to appeal to consumers with different preferences. One of the options is Fair trade, which is a relatively well known concept for consumers due to marketing and educational efforts (Davies *et al.* 2010). Finlayson has seen an increase in the sale of Fair trade towels in recent years and their understanding and experience is that it is because of consumers' increased knowledge of the label Surla, 2013). Both Finlayson and Ikea could benefit from marketing and extending their educational efforts for the consumer more about the less known initiatives, such as BCI, weaving techniques, soya towels and Cradle to Cradle, as part of their responsible sourcing efforts. Perhaps the future concept of luxury will be associated with a less materialistic view, which will be replaced with a perspective in which ethically sourced every-day products, like home textiles, are seen as luxuries.

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